Province of
British Columbia

AUDITOR GENERAL OF BRITISH COLUMBIA

THIRD SPECIAL REPORT

TO THE LEGISLATIVE ASSEMBLY

ON THE EXPENDITURES OF THE

MINISTRY OF TOURISM

Province of
British Columbia

Office of the
Auditor General
Province of British Columbia

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The Honourable K. Walter Davidson
Speaker of the Legislative Assembly
Province of British Columbia

Sir:

I submit this report to the Legislative Assembly of the Province of British Columbia on the matter of expenditures in the Ministry of Tourism in accordance with section 11 of the Auditor General Act, R.S.B.C. 1979, chapter 24.

Erma Morrison

Erma Morrison, F.C.A.
Auditor General

Victoria, British Columbia
11 April 1984

THIRD SPECIAL REPORT
TO THE LEGISLATIVE ASSEMBLY
ON THE EXPENDITURES OF THE
MINISTRY OF TOURISM

PREAMBLE

The purpose of this Special Report to the Legislative Assembly is to inform the Assembly further in regard to audit activities conducted by staff of my Office concerning expenditures of the Ministry of Tourism. These were the subject of two previous Special Reports dated 1 May and 15 July 1983. This report does not, and is not intended to, deal with the results of a recent investigation conducted by the Royal Canadian Mounted Police (RCMP) into affairs of the Ministry. That is a matter for the officials responsible.

OVERVIEW

It is a natural tendency for public excitement and interest to dwell on specific incidents and items.

The problem in reporting on a situation such as that which existed in the Ministry of Tourism during the period examined by my Office is that the specific items included as illustrations may be interpreted as the matters at issue. That is not the case. Specifics are recognizable and are representative symptoms. However, they are not the disease.

The real subject of my Special Reports on Expenditures of the Ministry of Tourism is the failure to discharge responsibility for the administration and control of public funds. The expectation and entitlement of the public is for the exercise of probity and prudence in the handling of such funds.

It is the responsibility of the Deputy Minister to organize his Ministry in a manner which not only achieves its program

objectives but also incorporates the necessary checks and balances required to establish accountability and control. These include both the delegation of responsibility and the establishment of processes to ensure that all actions are properly planned and approved, and then subjected to review and scrutiny.

The situation found by my Office with respect to the Marketing Division of the Ministry was as follows.

- The Marketing Division of the Ministry, under the control of the then Assistant Deputy Minister (ADM) Marketing, operated with little or no approval, review or scrutiny by appropriate senior Ministry officials.

- The marketing activities were carried out by private sector advertising agencies under various contractual arrangements, some of which were quite informal, again with virtually no participation or scrutiny by senior Ministry officials other than the ADM Marketing.

- The Ministry's Assistant Deputy Minister, Finance, the Director of Finance, and other financial officers of the Ministry accepted inadequately supported material submitted for payment on approval of the ADM Marketing.

- The Deputy Minister failed to exercise control over the Marketing Division and therefore permitted such a situation to exist.

- Many payments were made by the Office of the Comptroller General without adequate supporting documentation.

In summary, the financial activities of the Marketing Division of the Ministry were not adequately controlled.

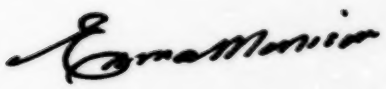
This, in its way, is a classic example of a breakdown in a system of controls designed to require adequate proof at various levels before making payments.

The final administrative responsibility rests with the Deputy Minister. Theoretically that responsibility is

exercised — and protected — by imposing peremptory conditions to justify reliance on the various levels of the organization.

In this case these conditions were not imposed, far less met.

The turning of the blind eye, the abrogation of responsibility, the manipulative evasion of control mechanisms, the cavalier attitude toward the use of public monies and accounting for them may not have been criminally unlawful — or provably so. But they do, however, suggest lack of honesty.



Erma Morrison, F.C.A.
Auditor General

Victoria, British Columbia
29 February 1984

GENERAL REPORT

My first Special Report to the Legislative Assembly on expenditures of the Ministry of Tourism indicated my main areas of concern. The Second Special Report provided details on the problems initially observed, and expressed my alarm about a major breakdown in the exercise of controls within the Ministry. My overall concern was the vulnerability of public funds and the potential for their abuse within the very system designed for their protection. I concluded then that the extreme latitude permitted and the lack of control exercised in regard to expenditures in the Ministry of Tourism during the 1982 fiscal year created a situation of serious import in the use of public funds.

In view of the seriousness of the situation, further audit work was considered necessary. The major portion of this work was to assemble and review additional data from government records. This was done for the purpose of continuing our audit examination into irregularities and failure to comply with government policies and procedures, and for the additional purpose of cooperating with and providing data

and information to the RCMP in their investigation of the possibility of criminal activities.

Because of the looseness of financial control, and the administrative weaknesses in the Ministry, with the consequent opportunity for fraud or abuse — whether or not used, and whether or not provable in terms of legal requirements — I had consulted the PCMP for advice. I met with a senior official of the RCMP Commercial Crime Section on 22 May 1983. Since that date contact between my Office and the RCMP has been maintained, and data assembled by my staff has been made available to them. I cannot sufficiently express my appreciation of their professionalism and that of their consulting chartered accountant in dealing with the problems involved in this complex and ever expanding investigation.

Following the official referral of the matter to the RCMP by the Ministry of the Attorney General on 27 July 1983 a decision was made as to the appropriate division of areas of investigation between the RCMP and my Office. It was obvious that the police would undertake responsibility in those areas where legal action might result and where both their expertise and experience were particularly relevant,

and also where individuals or organizations in the private sector might be sources of information. The latter category included officials no longer associated with the Ministry, as well as advertising agencies with which the Ministry dealt.

The role of my Office accordingly changed to providing cooperation and support to the police by assembling data and information from government records. To this end we extended our activity, from the 1982 fiscal year on which I have already reported, into the 1981 and 1983 fiscal years where such extension appeared relevant.

My concerns were not alleviated by the extensive additional work performed by my staff. Our findings confirmed and emphasized concerns expressed in my earlier reports. Problems resulting from the lack of proper control and accountability were not confined to the 1982 fiscal year. Although we could introduce numerous examples of the Ministry's failure to exercise proper financial control, the examples in the main would be similar to those in my Second Report. I do not think it necessary to present a report

filled with confirmatory but repetitive detail. Documentation and details relating to matters which we consider should be given follow-up attention will be supplied to the Ministry.

My responsibility is to identify and report areas where unsatisfactory procedures or situations exist, which I have done. Ministry officials and the Comptroller General have been made aware of the circumstances giving rise to my various criticisms. Corrective and preventive action are matters which must be undertaken by them.

On 29 February 1984 I received, under covering letter from the Deputy Minister of Tourism, a lengthy response to matters raised in my 1983 Special Reports. My offer to include this document as an appendix to this Report was not accepted by the Ministry. I interpreted the content of their response to confirm that an undesirable situation existed in the Ministry and indicate a recognition by the Ministry of its seriousness. I therefore feel that the phase of our audit activities relating to the identification of problems has come to an end.

The Ministry of Tourism in its response to my Reports included an outline and schedule of corrective action proposed for the balance of 1984 planned jointly with the Office of the Comptroller General. These proposed actions are extensive and include among them the reorganization of the financial function, the review and update of Ministry policy and procedures relating to expenditure control, the development of new and/or refined systems which emphasize commitment control and responsibility, and the development of internal audit. If successfully implemented and maintained, these measures should result in improved financial management and control.

During the course of our audit investigation we identified opportunities for the government to recover monies. These included both duplicate payments and unrecorded bank accounts. It is of deep concern that recovery of funds from these bank accounts operated by agencies occurred only after they were discovered by my audit staff. We have noted further bank accounts where recovery might be made, as well as more potential duplicate payments. We will supply assistance and transfer such documentation to the Ministry

of Tourism as may be useful in making further recoveries and eliminating other weaknesses.

We will also monitor the results of measures taken by the Ministry and central agencies of government to correct and avoid repetition of the astoundingly lax situation which was permitted to arise in the Ministry of Tourism and to continue for such a lengthy period of time.